

**TESTIMONY OF PAUL CHODAK**  
**BEFORE THE SENATE ENERGY AND TECHNOLOGY COMMITTEE**

- Chairman Nofs and members of the Senate Energy and Technology Committee,  
I thank you for the opportunity to testify regarding PA 286 which became law in 2008.
- My name is Paul Chodak. I am the president and Chief Operating Officer of Indiana Michigan Power, a wholly-owned subsidiary of American Electric Power serving 586,000 customers in southwest Michigan and Northern Indiana.
  - Our key generation asset in Michigan is its largest nuclear power plant, the D.C. Cook Nuclear Plant in Bridgman MI.
    - It provides approximately 1,200 good paying jobs and many more contract jobs.
    - Our job is to provide our customers safe and reliable power at the lowest cost we can.
    - We work hard to keep our rates low. For example, we reduced our workforce by 10% last year via a voluntary severance program.
    - For decades, I&M has been a low cost provider in Michigan.

- Currently, our residential rates are 32% below state average residential rates.
  - We have never lost a customer to choice.
- We support the reforms made in P.A. 286. The speedier and more certain recovery of utility investments provided by that law will make Michigan utility investments more attractive to investors. The result will be less costly borrowing and hence lower costs for our customers. Those reforms include:

**Twelve Month limit on rate cases at the MPSC** – Twelve months strikes the appropriate balance of the need for a thorough review and timely recovery to keep costs down.

**Future Test Years** - The legislation allows utilities to utilize projected expenses and capital investments (i.e. future test years) when filing for rate adjustments. This will better match the time in which the costs are incurred with the time the rates will be in effect.

**Establishment of a Certificate of Need for pre-approval of power projects** – Allows a utility to file a request with MPSC for pre-approval of major Power Purchase Agreements, new generation projects and major investments at existing power plants. Our goal is to serve customers in a manner consistent with their values.

There are many options to be considered and it is important and prudent for utilities, the MPSC and key stakeholders to review plans before the money is invested.

This pre-approval process allows utilities to share the decision making with the MPSC and if a certificate is granted, minimize the possibility of after-the-fact prudence reviews and rate disallowances, a major fear of investors.

This will be a big help to I&M as the certificate of need is specifically available for collections of industrial projects like our Cook Plant's Life Cycle Management Project, which I will discuss later.

#### **PA 286 Also Provided for Recovery of Interest Costs During**

**Construction** - Allows utilities to collect interest costs from its customers during construction of certified power projects. This provides three very important benefits for customers. First, it improves cash flow which supports a utility's credit metrics. This helps keep interest rates lower. Second, it also prevents the compounding of related interest costs during construction, which can result in higher rate increases at the end of a construction project. Both of these lower a project's costs to consumers. Third, it mitigates rate shock when a project is placed in rate base.

For example, assuming a 7% interest rate, CWIP on a \$1 billion construction project will save customers over \$200 million in total costs over the life of a project.

**Finally, the Ten Percent Choice Cap** – The ten percent choice cap is probably the most important reform contained in P.A. 286. The choice cap reduces the risk of utility investments which in turn reduces the cost of capital required to make the multi-billion dollar, multi-decade investments required to meet customer needs.

The cap reduces investment risk and thereby the premium required by investors.

For example, the choice cap limits the potential for a spiraling loss of customers. When customers leave, their contribution to pay for a utility's fixed costs are picked up by remaining customers. The bills of remaining customers are then driven higher providing incentive for even more customers to utilize choice.

In short without a choice cap, a temporary downturn in market power prices could send a utility into a downward spiral of losing more and more customers while the utility allocates commensurately more and more costs

to its remaining customers. The choice cap prevents this downward spiraling scenario.

In a practical sense, this supports the assurance of recovery provided by the Certificate of Need. After all, how valid would a Certificate of Need's guarantee of recovery of prudent costs be if all of a utility's customers were free to depart an investing utility? The guarantee is worth little if all customers could simply depart. Who would pay?

**The choice cap allows a utility to plan for and invest in an electrical system that will reliably serve its customers.** If a utility can lose all its customers, how does it know what investments are appropriate? The utility simply wouldn't know, cannot know, how many customers it needs to plan to serve. It makes planning for investments nearly impossible. Fundamentally, a regulated utility's relatively low risk business model reduces the cost of financing large multi-decade capital investments needed to serve customers.

**Finally, the choice cap is the backstop that best protects Michigan utilities credit metrics.** It will allow them to make the necessary investments at the most reasonable costs during the remainder of this decade.

- Financially these reforms are facilitating I&M's decision to invest billions of dollars over the next several years to meet customers' needs. There are two major reasons driving major capital investments for I&M.

**Train Wreck** – EPA is simultaneously moving several regulatory rules which together will generally drive many coal fired units either into retirement or to deploy expensive environmental equipment. Collectively these proposed rules are known as the "Train Wreck." Together they threaten to significantly increase the cost of power to our economy either by reducing the available generation supply or by the construction of major new environmental equipment on surviving units.

EEL and others estimate that as much as 20% or more of U.S. coal generation will be retired as a result of these new EPA rules. This will place significant upward pressure on market rates.

While we have no coal units in Michigan, our customers will feel these cost impacts as we have six coal fired units in Indiana that serve our Michigan customers. We are scheduled to shut down three coal units and invest \$1-2 billion retrofitting our remaining coal units.

We continue to advocate for lower cost regulatory schemes that will produce similar environmental benefits with Federal regulators and policy makers.

Progress is difficult.

**Life Cycle Management** - In 2005 the Nuclear Regulatory Commission granted each of our D.C. Cook Nuclear Plant's two generating unit's 20 year extensions for their operating licenses. The plant's two units will now be able to operate till 2034 and 2037.

However the extension will require us to make many substantial investments in Cook's equipment. As a result we are going to have to remove, replace and sometimes upgrade many major pieces of equipment. It's a bit of an oversimplification but much of the plant's original equipment was simply designed to operate for 40 years, not 60 years.

We call this Cook's Life Cycle Management process. This will be a major investment, but in the end the Cook Plant will still produce power economically. In short, customers will have access to low cost, near zero emission nuclear power at less than 30 percent of the cost of a new nuclear unit.

Notably, SW Michigan will enjoy several years of investment and many well paid jobs that will be produced by this project and the benefits of twenty more years of the plant's economical operations.

We plan to file at the MPSC for a Certificate of Need for this project in the first quarter of 2012.

- As I said earlier, this will be a period of multi-billion dollar capital investment for Indiana Michigan Power.
- In order to keep our customers' costs low, I&M must maintain sound credit metrics. Absent the above laws, our ability to invest would likely be constrained to the detriment of our ability to keep power costs as low as feasible. The existence of the provisions of P.A. 286 will make the projects much more feasible and affordable for our customers.
- We encourage you to recognize and support the many positive provisions that were passed in Michigan's 2008 Energy Act. They are going to be a great help as we try and digest the multi-billion dollar investments that are described above.
- Last, you should also know that Michigan's legislature was not alone in providing support to its utilities. Just last year, the State of Indiana passed legislation designed to aid major investments by its utilities. That legislation also included



new provisions authorizing the Indiana Utility Regulatory Commission to: (1) pre-approve major generation and environmental projects and (2) allow for the recovery of such project's carrying costs during construction.

- We are greatly thankful for both legislatures' wisdom and action in contemplation of this difficult time.
- Mr. Chairman this concludes my testimony. I would be pleased to answer any questions from the committee.



**COMPARISON OF AVERAGE RATES (IN CENTS PER KWH)  
FOR MPSC-REGULATED ELECTRIC UTILITIES IN MICHIGAN  
November 1, 2011**

	<u>RESIDENTIAL</u>			<u>SMALL COMMERCIAL</u>			<u>LARGE COMMERCIAL</u>			<u>INDUSTRIAL</u>		
	KW KWh	250	500	1,000	5	25	100	100	100	1,000	10,000	50,000
<b><u>INVESTOR OWNED</u></b>												
ALPENA POWER		15.78	14.18	13.38	14.31	12.87	13.07	11.79	10.90	9.05	7.22	6.64
CONSUMERS ENERGY		13.82	12.49	11.83	13.41	12.09	12.14	10.81	10.03	8.99	8.23	7.65
DETROIT EDISON		16.41	14.61	14.37	13.85	12.25	11.75	11.71	10.88	8.76	8.24	7.96
EDISON SAULT ELECTRIC		11.00	10.32	9.98	11.91	11.04	10.88	11.22	10.66	9.79	9.74	9.74
AEP (I&M) COMBINED		10.79	9.34	8.61	10.63	10.04	9.55	8.96	8.60	7.33	6.68	6.50
NORTHERN STATES POWER		12.40	10.95	10.23	10.57	9.61	10.56	9.45	8.78	8.37	8.30	8.29
UPPER PENINSULA POWER		20.12	18.12	17.12	18.22	16.90	16.45	13.86	12.95	9.53	8.99	8.14
UPPER PENINSULA POWER IRON RIVER		17.57	15.67	14.57	15.79	14.47	14.51	13.29	12.56	9.53	8.99	8.14
WISCONSIN ELECTRIC		18.79	16.30	15.06	17.64	14.89	14.43	14.37	12.20	10.74	10.36	7.46
WISCONSIN PUBLIC SERVICE		11.83	10.03	9.13	10.94	9.00	8.76	8.70	8.66	7.86	7.52	6.90
<b><u>COOPERATIVES</u></b>												
CLOVERLAND		13.23	11.43	10.53	11.22	10.30	9.85	9.12	8.68	7.03		
GREAT LAKES		16.89	13.89	12.39	12.83	11.16	11.29	10.38	9.84	7.13		
MIDWEST ENERGY		16.53	13.53	12.03	12.13	10.74	11.13	10.09	9.47	10.48		
ONTONAGON		23.19	20.79	19.59	18.75	16.73	17.14	15.42	14.39	11.71		
PRESCUE ISLE		17.16	13.96	12.36	11.67	10.18	11.80	10.65	9.96	8.56		
THUMB		15.49	13.69	12.79	13.01	11.96	14.30	12.93	12.10	9.27		
<b>AVERAGE INVESTOR OWNED</b>		14.85	13.19	12.43	13.73	12.32	12.11	11.42	10.62	9.00	8.43	7.74
<b>AVERAGE COOPERATIVE</b>		17.08	14.55	13.28	13.27	11.85	12.58	11.43	10.74	9.03		
<b>AVERAGE ALL COMPANIES</b>		15.69	13.70	12.75	13.55	12.14	12.29	11.42	10.67	9.01	8.43	7.74

Source: Michigan Public Service Commission Utility Rate Books  
Compiled by the Regulated Energy Division

